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December 19, 1997

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

RE: Ex Parte
CC Dkt. No. 97-208, Application by BellSouth Telecommunications, Inc.
and BellSouth Long Distance, Inc. for Provisioning of In-Region, interLATA
Service in South Carolina.

Dear Ms. Roman Salas:

The attached document was delivered to Chairman Kennard today.

Two copies of this Notice are being submitted to the secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick D. Bailey".

Attachments

cc: W. E. Kennard

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December 19, 1997

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, NW, Room 814
Washington, D.C. 20554

Dear Chairman Kennard:

In an article in today's Washington Post entitled, "AT&T Corp. Halts Effort to Sell Local Residential Phone Service," the Post reports that AT&T has "formally halted all spending on efforts to sell local residential phone service." Both the headline and the suggestion that AT&T is abandoning the local residential market are totally wrong.

What AT&T has said consistently, and what was more accurately reported by other papers (see copies enclosed), was that total services resale (TSR) has proven to be economically infeasible and AT&T cannot continue to rely on that form of entry. As a result, AT&T will redirect its resources away from TSR in order to pursue other, more economically viable, options for entering the residential local market – such as unbundled network elements (UNEs), acquisitions, partnerships, and joint ventures.

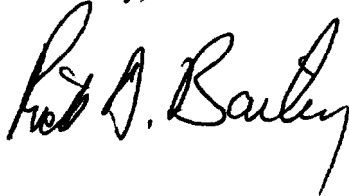
AT&T has not wavered in its commitment to entering the local market to provide service to all customers, business and residential. Entering the local market is a strategic and economic imperative for AT&T. AT&T has spent billions on local entry to date, and will invest more in local service in 1998, even at a time of major cost reduction and sharply prioritized spending – so long as entry conditions allow AT&T an opportunity at earning a fair return on that investment.

In this regard, AT&T has stated repeatedly that it fully intends to participate in the local residential market by providing service through combinations of network elements. What such entry will require and the problems facing AT&T in South Carolina in this regard are outlined in detail in our comments in this proceeding and include:

- **Unavailability of UNEs.** Not all of the UNEs specified by the Commission's Local Competition Order are available in South Carolina and AT&T remains at square one in its efforts to obtain them. For example, BellSouth will not permit CLECs to order vertical features that BellSouth itself does not sell to its retail customers as part of the unbundled switch even though those features exist in the switch. In addition, there are no methods and procedures in place which would permit CLECs to obtain combinations of elements.
- **Impermissible UNE Pricing.** The prices for UNEs proposed by BellSouth in South Carolina are laden with impermissibly high recurring and nonrecurring charges which are not appropriately cost-based.
- **Unavailability of UNE OSSs.** Even if UNEs were available and priced appropriately, the OSSs do not exist to support them on the scale needed to permit meaningful entry. BellSouth has just begun to implement access to its OSSs for UNEs and has not begun to develop access to its OSSs necessary for CLECs to order UNEs for recombination.

As stated by John Zeglis last evening in a speech before the American Enterprise Institute, AT&T fully intends to participate in the local residential market in South Carolina and in any state where the conditions for such participation are feasible.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Bailey". The signature is fluid and cursive, with the first name "Robert" and last name "Bailey" clearly legible.

cc: Commissioner Ness
Commissioner Furchtgott-Roth
Commissioner Powell
Commissioner Tristani

AT&T Chief Halts Hiring, Shifts Budget

By JOHN J. KELLER

Staff Reporter of THE WALL STREET JOURNAL

AT&T Corp. Chairman C. Michael Armstrong, taking a hard line on costs and the company's stock price, has frozen all hiring, set stringent new compensation guidelines and redirected more than \$2 billion in local-phone services spending.

In the job barely two months, Mr. Armstrong is forcing the company to make



C. Michael Armstrong

do with less and to get its stock price up quickly, said AT&T executives. He

hopes to plow much of the savings into new networks and services that should correct AT&T's paltry revenue growth. And a more valuable stock could be used by AT&T as

currency for making major acquisitions, as its rival

WorldCom Inc. and others have done so effectively.

The redirected funding resulted in the sale, confirmed yesterday, of AT&T's Universal Card unit to Citicorp for \$4 billion. But there's a twist in the deal: AT&T will remain in the business with the global banking giant by marketing services together for 10 years, including the current sale of calling-card services and, in the future, on-line banking via the Internet.

Another service would allow banking by pocket-phone, a sort of "personal ATM," but the technology is still being perfected, said AT&T Chief Financial Officer Dan Somers. Citicorp will pick up \$5.6 billion in debt. And executives said it has agreed to purchase at least \$700 million in communication services from AT&T over the next 10 years.

The hiring freeze, announced this week internally, could be the first step toward another major work-force reduction. People familiar with the company's plans said the cuts could be larger than the 17,000 job cuts planned two years ago and then only partially taken. But Mr. Somers said it was "premature" to discuss job cuts. AT&T has a work force of 133,000 people.

On the cost front, Mr. Armstrong is trying to cut expenses, currently more than \$45 billion a year. To cut the per-unit costs of fees AT&T pays to carriers for carrying its traffic locally — currently about \$17 billion — the company plans to find alternatives to the regional Bell companies, including building its own systems. Sales, general and administrative expenses, currently 29% of revenue, could be cut to the low 20s over the next couple of years, saving AT&T about \$3.5 billion to \$4

Please Turn to Page A6, Column 4

AT&T's Armstrong Sets Tough Agenda With Hiring Freeze

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billion a year.

All of AT&T's current expenses are under review, from light bulbs to the lasers and switches used in its networks. Facilities are being shut down or alternatives being looked at to cut costs. Company limousines are out. Mr. Armstrong, who is partial to big Harleys when he isn't driving his regular car, has ordered senior executives to drive themselves to work.

"Armstrong is streamlining decision-making, and he seems to be uncoupling strategy from the previous administration," said Kenneth McGee, an analyst at Gartner Group, Stamford, Conn., which advises corporate clients. "The backbone of that culture has to be broken."

Redirecting local expenditures, Mr. Armstrong has shelved AT&T's unprofitable effort of reselling Bell phone services. In the future AT&T will lease elements of the Bell networks, if it can get favorable terms, and it will acquire or build its own systems. By shelving resale, more than \$2 billion a year can be redirected toward direct investments in the local market, executives said.

AT&T spent an astonishing \$3 billion to \$4 billion in the local market on systems

and marketing in the past two years, but generated just \$65 million in revenue. And it had a loss of \$1.50 to \$2 every month for each subscriber it got, executives said.

Tying managers' compensation to the success of the company, Mr. Armstrong has ordered that managers' bonuses be paid 75% based on the financial performance of the company and 25% on the discretion of their supervisors — exactly opposite to how managers had been compensated.

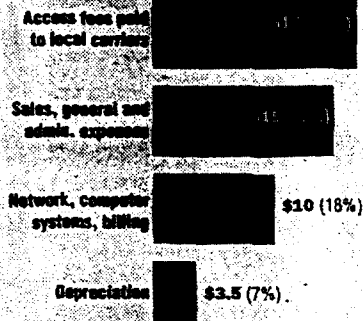
He has also directed executives to step up their ownership of AT&T stock. Mr. Armstrong and AT&T's most senior executives must own stock equal in value to five times their annual salary within five years; a lower level of executives, 3.5 times, and so on. Directors also approved a plan proposed by Mr. Armstrong that toughens stock-ownership requirements for board members. Directors, who until now haven't had to own stock, will be required to own a minimum of 8,000 shares.

AT&T and its new chief executive need to hurry up. AT&T has fallen woefully behind its rivals in accumulating the assets it will need to bundle a range of phone and data services. This includes newer Internet fare, where WorldCom and its planned acquisition MCI Communications Corp. are already bigger players.

Mr. Armstrong is expected to spend heavily to acquire assets in the local-services market; expand AT&T's Internet and wireless businesses; and establish a foothold in overseas markets where barriers to

Where the Money Goes

AT&T four biggest expenses, in billions, and as a percentage of total revenue



Source: AT&T

competition are falling.

"His game plan is realistic for dealing with the significant issues that face AT&T," said analyst Jack B. Grubman of Salomon Smith Barney. "Attack the costs, invest in facilities — particularly overseas, to serve multinationals. He knows it's a gradual, step-by-step climb to grow revenues."

In composite trading yesterday on the New York Stock Exchange, AT&T stock rose \$1.25 to \$59.125 a share, but Citicorp stock fell \$2.375 to \$129.125.

AT&T was advised in its credit-card deal by Salomon Smith Barney, while Citicorp was advised by Lehman Brothers and Goldman, Sachs & Co.

Market Place | Seth Schiesel

AT&T's soaring stock is doing the talking for the company.

THE C. Michael Armstrong treatment seems to be working, and he has not even said anything yet.

Instead, Mr. Armstrong, the new chairman of the AT&T Corporation, is letting the company's stock do the talking. And it is saying some fairly impressive things, such as "I've gained about 72 percent over the last five months."

AT&T's announcement yesterday that it had agreed to sell its credit card business to Citicorp for \$3.5 billion in cash was just the most recent and visible component of an aggressive turnaround strategy that has put some high-octane fuel into the company's reputation and stock for the first time in years.

Mr. Armstrong has not yet publicly explained his plan for revitalizing AT&T. But if the company's shares keep performing as they have since the summer he may not have to. And in any case his intentions are becoming clear.

He wants to reshape AT&T from a quasi-conglomerate into a more streamlined company that provides telecommunications services and little else. He wants to slash the company's costs by billions of dollars a year. To do that, he wants to eliminate at least a few layers of management (read layoffs may be coming) and he wants to tie compensation for managers more tightly to the company's overall financial performance.

He wants to get AT&T out of the unprofitable business of reselling local telephone service from regional Bell companies and into the profitable business of running its own local networks. He wants to revamp AT&T's anemic network of international partnerships and establish much strong-

er ties with select overseas carriers. He wants AT&T to make some significant acquisitions.

Like a boxer working his way back into fighting shape, AT&T has packed on about \$40 billion in market value since the company's board showed the door in July to John R. Walter, who had been in line for the chairman's job. Since July 18 the company's shares have risen on the New York Stock Exchange to \$59.125 yesterday from \$34.375.

And in an impressive reversal for a stock that lost about a quarter of its value between the beginning of 1996 and May 1997, AT&T's shares have been the best performer in the last six months among the 30 stocks in the Dow Jones industrial average.

The most obvious item on Mr. Armstrong's agenda is selling units that are tangential to AT&T's business of providing communications services. The company is selling part of its corporate outsourcing business and its 45 percent stake in the Lin Television Corporation. AT&T is also looking for a buyer for its paging unit. The company even agreed to sell back its 2.5 percent stake in Mr. Armstrong's former employer, the Hughes Electronics division of General Motors.

But the Citicorp deal is the biggest so far, and may be the best. In addition to paying \$3.5 billion in cash for the credit card business, Citicorp also agreed to buy about \$700 million worth of long-distance time from AT&T to offer to card users, according to people close to the deal. AT&T will also collect a fee between 15 cents and 35 cents for each new customer signed up by the Universal Card unit over the next 10 years, the people said.

Dan Somers, AT&T's chief financial officer, said yesterday that the deal might add \$100 million to \$150 million annually to AT&T's revenue.

But selling assets only goes so far. At almost 30 percent of revenue, AT&T's selling, general and administrative expenses are at the very least

bloated. Mr. Armstrong wants to get that figure down to around 22 percent, according to people close to him. To get there he wants to squeeze suppliers and sell some real estate, but he is also contemplating layoffs, the people said.

He is also trying to close most of the company's existing local telephone operations, which resell service provided by local incumbents. The company has invested about \$3.5 billion in local service and Mr. Armstrong is furious that the unit generates only about \$65 million in annual revenue.

The company's financial performance is about to become an issue of much more intense interest among AT&T employees. At Wednesday's meeting, AT&T's board also approved a plan suggested by Mr. Armstrong to drastically revamp the company's compensation structure.

Beginning next year, 75 percent of annual bonuses for managers will be determined by the company's revenue growth, earnings-per-share growth and cost-containment efforts, according to people close to the board. The remaining 25 percent will be determined more subjectively. That is a reverse of the current structure. The company's top 500 executives will also be rewarded based on the performance of the company's stock.

In addition, the board approved new stock-ownership requirements for directors and executives. The directors now have five years to buy about \$450,000 worth of AT&T stock, people close to the board said, while top executives have five years to buy stock worth five times their annual salary.

As part of his efforts to hasten decision-making, Mr. Armstrong has also put three separate executive teams into one seven-member group with full control over the company's operations.

It had become a familiar joke at AT&T that the company offered "One-stop shopping."

The punch line: "Anyone can stop anything anywhere."

Stock Prices Are Falling Amid Revival Of Forecasts

Continued From First Business Page

tions.

But adding to the negativity is the string of 1998 market forecasts coming out, which are bearish. And the bearish to neutral this year have turned wrong, many investors are skeptical that they can do that well next year.

One of the stock market's known bulls, Ralph J. Bunch, director of technical Prudential Securities, cast a Dow of 10,000 said yesterday that his forecast on hold until predicts that the Dow between 6,000 and 8,600 thinks that three-quarter stocks on the New York change could decline.

Barton Biggs, the managing director at Morgan Stanley, Dean Witter & Company, says the economic effect of the dollar and the rising dollar in the United States are likely to experience next year. But Mr. Biggs, before and throw in the towel as the market stormed ahead.

Richard Bernstein, quantitative research at Lynch, said that the

Giving at the Home Office: Municipalities Set New Fees

Continued From First Business Page

"TAXMAN!"

Not every city is as successful as

to report the transactions to the Government, many of these businesses